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## The success of luxury brands in Japan and their uncertain future

### ABSTRACT

The Japanese are the world's largest individual consumers of luxury brands and form the second largest market for luxury goods after the US. The Japanese were the driving force behind the exponential growth of the European luxury industry and the resulting "democratization of luxury". This concept of giving everyone access to luxury branded goods is a paradox because it abandons the exclusivity that was the original basis of the European luxury industry in the hands of skilled designers and craftsmen. By making luxury branded goods widely accessible to most consumers they run a major risk of becoming simply too 'common'. The 2007-8 economic crisis adversely affected the luxury market, producing a general backlash against 'conspicuous consumption'. In Japan, as in most countries in the world, the crisis reduced consumers' discretionary spending, but in addition it also accelerated the fundamental shift in the attitude and behavior of Japanese luxury consumers.

**Keywords:** Japanese consumers of luxury brands, Japan the largest luxury market in the world, conspicuous consumption, democratization of luxury, luxury brands as status symbols, luxury brands as badges of economic success, parasite singles

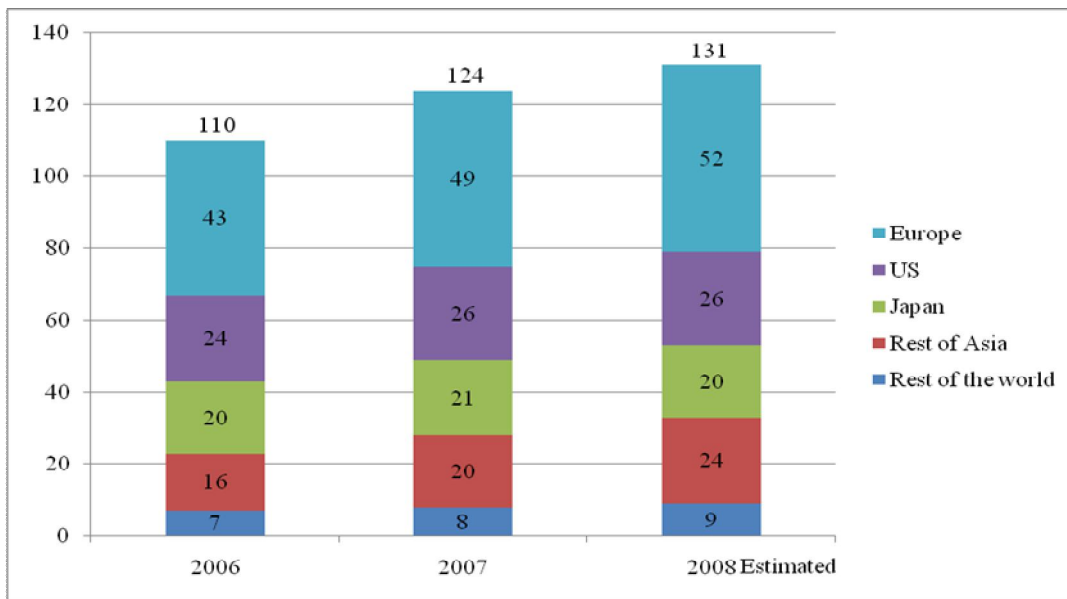
## Introduction

Marketing of branded goods was primarily developed in the United States (US) starting in the second half of the 19<sup>th</sup> century. American company Procter & Gamble for example introduced its Ivory soap brand in 1879, developed it into a national US brand in 1882 and after the Second World War into a world brand (Degen, July, 2009). The more sophisticated marketing of luxury branded goods was developed in Europe and expanded worldwide from the 1970s onward driven mainly by French, Italian and Swiss companies such as Luis Vuitton, Hermes, Chanel, Bulgari, Gucci, Prada, Cartier and Rolex just to mention a few.

The driving force behind the exponential growth of the European luxury industry was the so called "democratization of luxury". This concept of giving everyone access to luxury branded goods is a paradox because it abandons the exclusivity that formed the original basis of the European luxury industry in the hands of skilled designers and craftsmen. By making luxury branded goods widely accessible to most consumers they run the major risk of their becoming too 'common' or vulgar.

The overall luxury market in 2008 was estimated by McKinsey Asia (Atsmon et al., 2009) to be 131 billion United States dollars (USD). These luxury brand sales include ready-to-wear clothing, fragrances, cosmetics, skin care, leather goods, footwear, accessories, watches, and jewelry. Of total luxury sales, 52 billion USD were in Europe, 26 billion in the United States (US), 20 billion in Japan, 24 billion in the rest of Asia, and only 9 billion in the rest of the world (Figure 1). Despite the financial crisis the overall growth in sales from 2007 to 2008 was 5 percent, with the US growing 1 percent; Europe 7 percent; the rest of Asia, led by China, growing by 17 percent; and the rest of the world by 9 percent. Japan however showed a significant 7 percent decline, especially notable because Japan is the world's most concentrated source of revenue for luxury brands with the highest per capita spending on luxury brands in the world. This spending figure is almost the double that of the US (Figure 2).

**Figure 1.** Luxury market by region in billions of USD



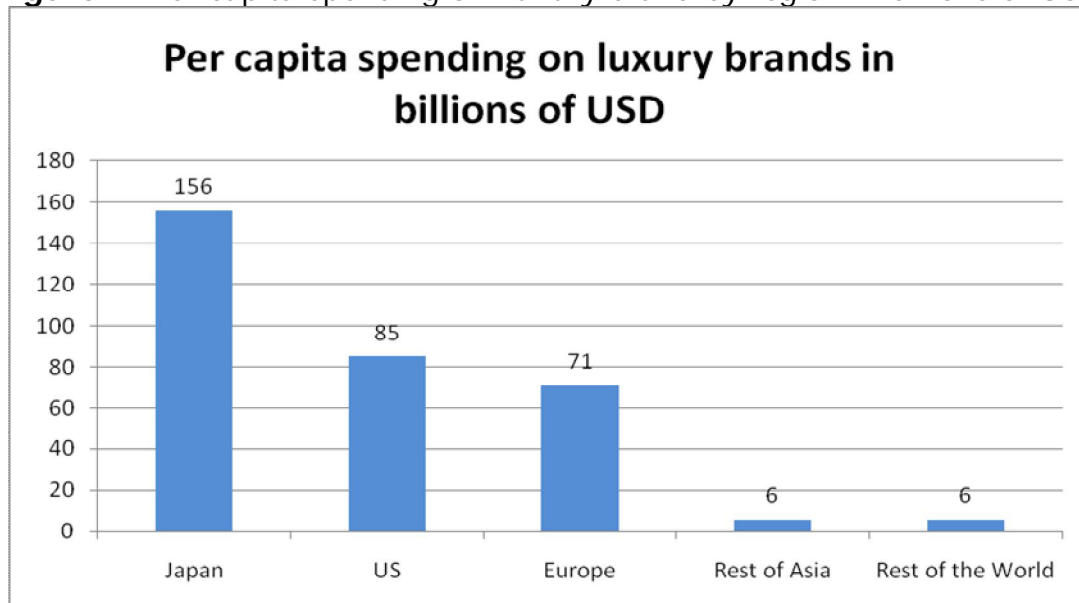
Source: Atsmon et al., 2009

An interesting curiosity that we are going to explore in this paper is that the concept of 'democratization of luxury' was actually inspired by the Japanese luxury brand consumer and their voracious need for conspicuous consumption in pursuit of social esteem. This is in essence the same luxury consumption concept described by Thorstein Veblen (1994, first published in 1899) in regard to the newly rich industrial barons at the end of the 19<sup>th</sup> century. Veblen (1994, p. 74), describing the luxury consumption of these industrial barons, wrote:

*Since the consumption of more excellent goods is an evidence of wealth, it becomes honorific; and conversely, the failure to consume in due quantity and quality becomes a mark of inferiority and demerit.*

This conspicuous consumption need so clearly defined by Veblen is not limited to Japan. It has spread all over Asia and today luxury brands are modern symbols Asians wear to redefine their identity and social status (Degen, June, 2009).

**Figure 2.** Per capita spending on Luxury brand by region in billions of USD



Source: Author

The noteworthy decline of luxury brands sales in Japan can be attributed to four factors: the financial crisis of 2007-8; the bursting of the luxury brand bubble of the early 2000s; the rapid aging of the Japanese population - that outweighs all other nations; and a possible long-term shift in consumer attitudes and behavior toward luxury brands by the Japanese.

The financial crisis is the most recent factor, but as it is one that has affected all markets it alone does not explain the singular behavior of the Japanese luxury consumers. The financial crisis may however have been responsible for triggering the bursting of the luxury brand bubble that had begun in the early 2000s when newly rich bankers, traders, real-estate agents, and entrepreneurs started spending money on luxury goods. This spending was further encouraged by a massive expansion of luxury brand stores in Japan, as exemplified by luxury retail extravaganzas such as 2001's 138 million USD eleven-story glass-brick Hermes flagship store in the Ginza, Tokyo's primary shopping district (Chadha & Husband, 2006, p. 75-76); 2002's 100 million USD six-floor Louis Vuitton flagship store in Omotesando, a tree-lined neighborhood in Tokyo known as an art and culture hotspot; 2003's 80 million USD six-story Prada temple to postmodernism flagship store, also in Omotesando; and 2004's 240 million USD ten-floor Chanel flagship store in the Ginza with its absurdly expensive

décor including glittering silver dust on the pillars and gold-ribbon panels on the walls (Thomas, 2008, p. 94).

The last two factors – the rapid aging of the Japanese population, and a possible long-term shift in Japanese consumer attitudes and behavior toward luxury brands and its implications for the luxury industry – are the central themes of this study. In this paper we will cover the origin of luxury, the advent of luxury industry, the 'democratization of luxury' brands, the Japanese-motivated spread of luxury brands, the luxury brand addicted Japanese, and the uncertain future of the luxury brand industry in Japan.

### **The origin of luxury**

The origin of luxury goes back to the dawn of humanity to the time when we parted company from our ape ancestors. Our most primitive forefathers used objects to adorn themselves and to differentiate themselves from others in their communities according to their social position. From the time mankind started burying its dead we find objects that differentiate them. The more important in their community the person buried was, the more precious the artifacts found in their graves. These artifacts were symbols of their social standing and in some cases included jewelry, weapons, horses and even ships.

The word luxury derives from the Latin 'luxus' which can be translated as 'superfluous abundance'. The concept of luxury is essentially relative to the time period and the social and moral norms that a person subscribes to. The prevailing notion is of relatively large consumption of wealth for unessential pleasure. There is no real line separating luxury, comfort and necessity and it is common in today's world that that the luxury of one generation becomes the necessity of a subsequent generation. Perhaps the best way to understand luxury is to define it as 'expenditure in excess of the normal and customary standard of living of the class to which the individuals concerned belong'.

Luxury has played a great role in the historical economic, social and political development of humanity. In Italy and France, the classic lands of luxury, the luxurious expenditures of the papacy and of the courts in the Middle Ages had an important influence upon economic development by



promoting the accumulation of wealth and thus creating markets for certain industries. It also contributed to giving a new direction to art with the rise of the Italian merchant princes that replaced the church as the major patrons of the arts. The simple piety of the Middle Ages gave way to the sumptuous paganism of the Renaissance period. In another direction it led to the disruption of the old feudal social order with the revolutionary turmoil in France. The continual drain of wealth from the countryside to sustain the luxurious lives of the privileged nobles in Paris and Versailles produced on the one hand a considerable amount of industrial activity, but on the other hand led to the popular discontent that fueled the French Revolution.

The desire for luxury generates an inevitable commitment to the growth of wealth and brings with it an increase and differentiation of wants. For the great majority of the people, those able through their heritage or personal effort to obtain luxury generate a mixture of envy and approval as role models. The general demand for luxury is a great stimulus to economic progress, for it provides an enormously strong incentive to work, and to search for success and its associated wealth. In some cases though, it brings out some less desirable human characteristics such as greed, which may in turn lead to direct dishonesty such as the Madoff Ponzi Scheme (Financial Times, 2009, December 22) or to the more subtle moral hazard of the bankers that was the main cause of the 2007-8 financial crisis (Degen, October, 2009).

Veblen (1994), in his *Theory of the leisure class*, stated that the evils and low standards of luxury expenditures are not confined to the privileged wealthy class but propagate and are imitated right down the social pyramid. Because of these evils moralists have frequently attacked luxury consumption on ethical grounds. In Ancient Greece there was the secular conflict between two life styles: the luxury of Athens and the austerity of Sparta. This conflict between luxury and austerity is ageless: from the Stoics in Ancient Greece who condemned luxury because it ran counter to their ideals of simplicity; the supporters of the Old Republic in Ancient Rome and its series of sumptuary laws (the first law was the Lex Oppia passed in 215 BC and repealed in 195 BC; this law restricted not only a woman's possession of wealth, but also her display of wealth); the early Christians

that exalted asceticism and poverty as their ideal; the Puritans who feared that luxury would imperil the immortal soul; and the Socialists who consider the coexistence of luxury with poverty to be immoral.

### **The advent of the luxury brands industry**

The first luxury brand in the style that we know luxury brands today originated in Paris at the end of the 19<sup>th</sup> century, when the first designer label was created. Ironically the creator was Charles Frederick Worth, an Englishman. Before Worth dressmakers did not create styles or dictated fashion, they were mere suppliers who made up copies of gowns that their wealthy clients had seen in illustrated journals, or had admired at social gatherings. The clients themselves chose the fabrics and colors, and dresses were constructed around them. Worth was the first couturier to impose his own taste on women and so was also the first celebrity fashion designer (Tungate, 2008, p. 9-10).

Worth established himself after working at the drapery house of 'Gargelin & Opigez' at 83 Rue Richelieu in Paris. With the backing of a wealthy young Swedish draper called Otto Bobergh the new couturier atelier 'Worth & Bobergh' was established at 7 Rue de la Paix in 1858. Worth had a number of influential clients but his big break came when Empress Eugenie, the wife of Napoleon III, spotted a dress he'd made and summoned him to design dresses for her. After this episode, Worth was dressing the world's most famous and glamorous women.

Worth was also a marketing genius. He was the first couturier to sit his clients down and give them a little show by attractive young women dressed in his creations, thus inventing the concept of fashion models. Another of his ideas was to identify fashionable women on whom he could place his dresses, knowing that they would create a buzz as they mingled in high society. In addition, Worth looked and acted like a proper fashion designer as dressed in velvet with a cigar between his ostentatiously be-ringed fingers he would greet clients while reclining on a divan. He also had a capricious temper; potential clients could be turned down, and existing clients banished (Tungate, 2008, p. 10).

By the time he died in 1885, Worth had established a pattern for all subsequent designers to follow. He had created many of the basics of contemporary fashion and luxury brand marketing. He had created the runway shows, fashion models, celebrity models, elitism, and a charismatic and eccentric brand spokesman. After his death the 'Maison Worth' continued under the direction of his sons and the Worth luxury label continue to sell luxury beyond the 1920s with the launch of branded Worth perfume in 1925 (Tungate, 2008, p. 11).

A new designer took central stage in the early 1900s. Paul Poiret started working for 'Maison Worth' but soon began to challenge the restrictive style of his employers. In 1904 he opened his own shop in the Rue du Faubourg Saint Honoré and started altering the outline of women's clothing. Like Worth, Poiret too had a sophisticated approach to promoting his products. In 1911 he became the first couturier to launch a branded perfume, called 'Rosine'. The same year, he threw an extravaganza party called *The thousand and second night* to which the most fashionable names in Europe were invited and attended dressed as Persian royalty or as followers of Scheherazade (Tungate, 2008, p. 12).

Poiret opened branded luxury boutiques in major French cities, and organized traveling fashion shows. But despite his talent and marketing he could not stop fashion's constant change. Following the First World War, during the 1920s, Gabrielle 'Coco' Chanel considered Poiret's dresses to be costumes rather than clothes and decided to take fashion into the 20<sup>th</sup> century. During the First World War, women had worked in factories and fields, and grown accustomed to the simplicity of uniforms. Women had become less overtly feminine, so Chanel, and notably Jean Patou, created and promoted the androgynous style (Tungate, 2008, p. 13).

The Second World War changed everything again. During the German occupation of France from 1940 to 1945 the focus of fashion and luxury brands shifted from Paris to New York. Before the war American women bought expensive gowns imported from Paris, or had more affordable copies made in the US. With the war the manufacturers on New York's Seventh Avenue got a boost, and in the 1940s the locale became the birthplace of

ready-to-wear fashion. The Americans went on to challenge the hegemony of Paris as the world's fashion capital.

After the Second World War, Christian Dior in Paris with his visionary designs and promotional genius took the center stage in luxury fashion. He invented 'The new look' that proved to be a money making machine. He launched his first perfume in 1947 and a ready-to-wear store in New York in 1948. During the 1950s he licensed his Dior luxury brand to a range of ties and stockings and opened Dior branches all over the world (Tungate, 2008, p. 14). When he died prematurely in 1957 he was employing over a thousand people - something completely new for a couturier. Dior's important contribution to luxury brand marketing was the demonstration that luxury could be repackaged as a mass product. He was the pioneer of the 'democratization of luxury'.

Dior's success inspired today's luxury brand marketing. Already in the 1960s when fashion was democratized marketers became the determinants of the luxury brand fashion. Tungate (2008, p. 15), explaining the hegemony of marketers, writes:

*When asked who invented the mini-skirts, herself or the French designer André Courrèges, Mary Quant replied generously, 'Neither – it was invented by the street.' Nevertheless, Quant was one of several designers who translated the 'sixties youth culture' into profit, with considerable success.*

Pierre Cardin, a protégé of Christian Dior, noted very early the decline of haute couture and the potential of ready-to-wear (prêt-à-porter) and successfully got a corner of the Parisian department store Printemps reserved exclusively for his brand. He surpassed Dior in extending his brand to more than 800 different products around the world. Cardin seems to have been more interested in promoting his label than his designs, a licensing strategy that nevertheless made him a vast personal fortune. This strategy however undermined the sense of exclusivity that is the core value of any luxury brand. The consequence was that the prestige of the Cardin label has suffered since the 1990s (Tungate, 2008, p. 15).

Another great designer of the 1960s and even the 1970s was Yves Saint Laurent. He started out as the successor of Dior but broke away to open his 'luxury prêt-à-porter' store, the Saint Laurent Rive Gauche, in

Paris's Saint Germain district. With him and other French designers prêt-à-porter displaced haute couture and 'street wear' displaced 'aristocratic' glamour. The designer was also heavily into licensing his YSL label but kept a closer eye on quality control than Cardin had done. Saint Laurent's biggest hit was his Opium brand perfume, launched in 1977 and still popular today (Tungate, 2008, p. 16).

In the 1960s and 1970s Italian leather goods and fur businesses started to grow and to establish their brands in all the principal markets. It was in the 1960s that the talented young designer Karl Lagerfeld helped turn Fendi from a small local brand into an international success. Other Italian brands like Armani, Gucci and Cerruti, to name a few, followed. In the early 1980s the Milanese seemed to dominate the luxury business. Tungate (2008, p. 16-17) explains the rise of the Milanese:

*They were traders at heart, and they knew how to marry art with commerce in a way that many French labels hadn't quite grasped.*

### **The democratization of luxury**

Haute couture and luxury was traditionally the domain of the wealthy and the famous, one that ordinary people did not dare enter. The political revolution of the 1960s changed that by pulling down all social barriers, including those that separated the rich from the rest. Luxury at the time simply went out of fashion and stayed out of fashion until the new and financially powerful unmarried female executive emerged in the 1980s. The American inspired meritocracy became the social norm as anyone and everyone could move up the economic and social ladder and indulge in luxury. Simultaneously, disposable income rose significantly in the industrialized nations. Marriages were left until later in life and the number of children fell, freeing men and women to spend more on themselves, and to indulge in luxury (Thomas, 2007, p. 8).

Thomas (2007, p. 33) illustrates the changes that took place in the 1960s through quoting the remembrances of actress Leslie Caron:

*I stopped buying couture because, frankly, it was considered really old-fashioned. I remember one of the fashion magazines asked me to do a layout in about 1968, and they came up with people I never heard of like Biba. You were supposed to look like a flower child. You couldn't wear hats anymore, you couldn't wear gloves or a bra, and you looked really old-fashioned if you wore couture dresses.*

Thomas (2007, p. 34) goes on to explain what happened in the fashion world during the 1960s:

*It was also an end to a certain part of the luxury business. From then on, luxury was not longer simply about creating the finest things money could buy. It was about making money, a lot of money. Couturiers licensed their names liberally, and not just on perfumes and eyewear. Givenchy and Pucci both did special designer editions of Lincoln Continentals. Quality dropped. ... Service evaporated.*

There are many factors that led to the exponential growth of the luxury industry after the 1960s. Fundamental were the sociological changes arising from the emancipation of women, the relative world peace, the disappearance of social stratification based on heritage in favor of today's democratic societies, and their offspring in the egalitarian societies. The consumption of luxury in these new equalitarian societies is seen by individuals as a symbol of their belonging to a new stratification – one based on their bank accounts.

These underlying sociological changes were enhanced by a general rise in discretionary spending power among of the world's population through wage increases and falling prices, the globalization of the world markets that offered wide accessibility to luxury products, the development of global mass media (television in particular), and the growth in international travel.

Entrepreneurs and financiers saw the potential of the luxury industry, and begun buying or taking over traditional luxury companies from elderly founders or incompetent heirs and building up their brands. They introduced the concept of the 'democratization of luxury'. The idea was to make luxury 'accessible to everyone'. Thomas (2007, p. 9-10) explains that to do this the new luxury industry tycoons used a two stage strategy:

*First they hyped their brands mercilessly. They trumpeted the brand's historical legacy and the tradition of handcraftsmanship to give the products an air of luxury legitimacy. They encouraged their designers to stage extravagant or provocative fashion shows – at a million dollars a pop – to drum up controversy and make headlines. They spent billions of dollars on deliberately shocking advertising campaigns – Dior's grease-smudged lesbian ads to sell purses, Yves Saint Laurent's full-frontal male nudity shot to sell perfume – that made their brands as recognizable and common as Nike or Ford. They dressed celebrities, who in return told every reporter lining the*



*red carpet which company had provided their gown, jewels, handbag, tuxedo, or shoes. They began to sponsor high-profile sporting and entertainment events such as Louis Vuitton at the American Cup and Chopard at the Cannes Film Festival. The message was clear: buy our brand and you, too, will live a luxury life.*

*Then the tycoons made their products more available, economically and physically. They expanded their retail reach from the original polished-oak-paneled family shop and a few overseas franchises to a vast global network, rolling out thousands of stores that are as ubiquitous and approachable as Benetton or Gap. They opened outlets to sell leftovers at bargain prices, launched e-commerce sites on the internet, and ramped up their share of duty-free retailing.*

According to Thomas (2007, p. 12), the most successful of these new 'luxury barons' (as she calls them) is Bernard Arnault, chairman and CEO of the Paris-based luxury brand group LVMH (Louis Vuitton Moët Hennessy). Besides the Luis Vuitton brand, Moët & Chandon champagne and Hennessy cognac, the group has over fifty other luxury brands including Dior, Dom Pérignon, Krug and Veuve Clicquot champagne, Givenchy couture, and Tag Heuer watches. In 2008 the group had fifty-six thousand employees and twenty-three hundred stores, and made 2 billion euros profit on 17.1 billion euros in sales (LVMH Group). The group's leading luxury brand, Luis Vuitton, has an estimated 3.7 USD billion in annual sales (Thomas, 2007, p. 18).

In 2009 Forbes magazine named Arnault the fifteenth richest man in the world with a net worth of more than 16.5 billion USD (Forbes, 2009). Thomas (2007, p. 12-13) explains his success:

*When Arnault took control of LVMH in 1990, it had sales of about 3.6 billion US dollars with net profit of 621 million USD. In 2005, it recorded 17.3 billion USD in sales and net profit of 1.8 billion USD. "What I like is the idea of transforming creativity into profitability." Arnault once said. "It's what I like most."*

Thomas (2007, p. 55) highlights that the only real competitor to Arnault in the 1990s was the Swiss-based conglomerate Richemont which owns such luxury brands as Cartier, Jaeger-Lecoultrre, IWC, Baume et Mercier, Piaget, Vacheron Constantin, Van Cleef & Arpels, Dunhill, Mont Blanc, and Chloé. The conglomerate is controlled by Johann Rupert, an Afrikaner businessman from Johannesburg, South Africa. In 2009 Richemont made a net profit of one billion euros on 5.4 billion euros in sales

(Richemont, 2009). Cartier accounts for about half of the group's sales and a staggering 85 percent of its operating profits, according to analysts. About 60 percent of Cartier's earnings are reportedly from sales of watches (Thomas, 2007, p. 57).

In 1999 Arnault launched a takeover bid for Gucci and lost out to François Pinault, a French financier who controlled the Pinault-Printemps-Redoute (PPP) group, which includes the auction house Christie's, the Printemps department store chain, and the La Redoute catalog. Pinault formed the Gucci Group and bought the Yves Saint Laurent Rive Gauche ready-to-wear and cosmetic companies. With the formation of the Gucci Group, Arnault now has direct competition for brands, for designers, and customers.

**Figure 3.** Luxury fashion brands with sales over 500 million euros

France	Italy
Chanel	Armani
Dior	Dolce & Gabbana
Hermès	Emernigildo Zegna
Luis Vuitton	Gucci
	Max Mara
	Prada
	Salvatore Ferragamo

Source: Chevalier & Mazzalovo, 2008, p. 49

**Figure 4.** Luxury fashion brands with sales between 100 and 500 million euros

France	Italy
Agnès B.	Alberto Ferretti
Céline	Bottega Veneta
Chloé	Blumarine
Jean Paul Gaultier	Brioni
Kenzo	Etro
Lacoste	Fendi
Lanvin	Ferre
Longchamp	Furla
Sonia Rykiel	Krizia
Yves Saint Laurent	La Perla
	Laura Biagiotti
	Loro Piana
	Les Copains
	Mariella Burani
	Mariella Rinaldi
	Marni



Missoni
Miu Miu
Moschino
Nazareno Gabrielli
Roberto Cavalli
Trussardi
Valentino
Versace

Source: Chevalier & Mazzalovo, 2008, p. 49

Chevalier and Mazzalovo (2008, p. 49) have put together list of what they consider to be the great luxury fashion brands in today's world. The first list (Figure 3) is comprised of those luxury fashion brands with sales over 500 million euros. They explain that these brands invest heavily in advertising because of their high sales; have the necessary production volume to open boutiques all over the world, and a sufficient customer base for all the boutiques to be profitable. These brands are found in almost all luxury shopping galleries all over the world. The second list (Figure 4) comprises those brands with sales between 100 and 500 million euros. These brands, according to the authors, have a more limited presence in the world and are represented only by their boutiques in the major fashion centers like Paris, Milan, New York and Hong Kong and maybe by a stronger presence in two or three countries.

The authors also explain the overwhelming presence on the lists of the Italian luxury fashion brands by the inclusion of leather luxury fashion accessories where the Italians dominate in number but are still way behind the absolute sales of the two French brands – Luis Vuitton and Hermès. They also mention that other countries like the United States have successful brands but in their opinion these brands are not in the same categories.

Chevalier and Mazzalovo in putting their list of luxury fashion brands together used a strict definition of a luxury brand as having to be absolutely true to its roots and be produced in a place that holds some legitimacy for it. They explain that they don't consider the American brand Ralph Lauren a luxury brand; rather they consider it a 'lifestyle' brand like most other premium brands. Kapferer and Bastien (2009, p. 14) explain that by

remaining faithful to its origins the luxury branded product offers an anchor point in a world of a culture drift, trivialization and deracination:

*A luxury brand should not yield to the temptation of relocation, which effectively means dislocation: a relocated product is a soulless product (it lost its identity), even if it is not actually anonymous (it still brand name) it no longer has any business in the world of luxury.*

Kapferer and Bastien are even stricter in their differentiation between luxury brands and premium brands than Chevalier and Mazzalovo are, arguing that it is perfectly legitimate for a premium branded product to be manufactured in the most suitable and most economical manufacturing location possible, so long as quality and service levels can be maintained. On the other hand they write:

*A luxury product, which carries a whole world with it, has to be produced in a place that is consistent with its world. Products by Chanel or Hermès, being manufactured in France, truly are luxury products; products bearing a Dior or Burberry label, on the other hand, being manufactured in countries where labor costs are low and not in France (Dior's place of origin) or in the UK (Burberry's place of origin) are no longer entitled to be called luxury products: this kind of relocation for cost-cutting reasons is proof that these brands do not have (or no longer have) a sufficiently high level of quality or creativity – as regards the products concerned, at any rate – to justify a price level that would allow them to continue to be produced in their country of origin.*

If there is one thing that changed in luxury in the last thirty years, explains Thomas (2007, p. 41), it is the current single-minded focus on profitability. She writes:

*In the old days, when luxury brands were held companies, owners cared about making a profit but the primary objective in-house was to produce the finest possible. Since the tycoons have taken over however, that objective has been replaced by a phenomenon I call the cult of luxury. Today, luxury brand items are collected like baseball cards, displayed like artwork, brandished like iconography. Arnault and his fellow luxury tycoons have shifted the focus from what the product is to what it represents. To achieve this, they "enhance (the) timelessness" as Arnault likes to say, by trumpeting a company's heritage; hire a hip young designer to give it a sexy, modern edge; strengthen the branding by streamlining the name (Christian Dior has become simply Dior, Burberry lost its 's') and splashing the logo on everything from handbags to bikinis, and advertise the entire package relentlessly to spread the new gospel to the masses.*

### **The Japanese motivated spread of luxury brands**

In the early 1970s Japan's GDP had been growing at an average of some 9.5 percent per year with per capita income rising to reach that of Western Europe (Hedrick-Wong, 2007, p. 22). This was also the period that the Japanese tourist-shoppers became a noticeable phenomenon in Europe. The French, Italian and Swiss luxury houses saw the opportunity and started setting up sales branches in Japan. Gucci opened its first store in Tokyo in 1972 in response to demand from Japanese tourists in Europe, while Louis Vuitton followed for the same reason in 1978 (Chadha & Husband, 2006, p. 16).

Japan's amazing economic success after the Second World War can be measured by the growth of its economy. In 1955 Japan's economy was half the size of the economies of France and Britain with per capita income well under that of even Italy. From 1955 to 1995 (in 40 years) the Japanese economy grew by 230 percent in US dollar terms to become the second largest national economy in the world behind only the United States. It is more than three times the size of the French economy, and more than four times the size of the British economy (Abegglen, 2006, p. 24). The Japanese economic growth from poverty immediately after the Second World War to wealth in such a short time has no precedent in world history and explains why the number of Japanese tourist shoppers in Europe grew to such gigantic proportions in the 1980s and 1990s.

With the opening of luxury fashion boutiques in Japan, the Japanese began buying luxury goods furiously at home while also still shopping maniacally in Europe. A study by JP Morgan estimated that Japanese tourists represented more than 80 percent of Luis Vuitton's Champ Elysées store sales (Chadha & Husband, 2006, p. 16). The wider the Japanese traveled, the more branded stores were opened at all their favorite destinations, from Hawaii's boutiques on Kalakaua Avenue to Hong Kong's plush Landmark shopping center (followed later by the mall at the International Financial Center). The Japanese were the driving force behind the growth of luxury fashion retail all over Asia and were responsible for the growth in duty-free luxury sales in all their travel destinations such as

Seoul, Taipei and Bangkok to mention only the more important ones (Chadha & Husband, 2006, p. 16).

The success with the Japanese generated extraordinary profits for the luxury fashion industry and encouraged the firms to expand globally into the traditional luxury markets such as Paris, London, New York, Rome, Milan and Hong Kong following the Japanese shoppers but also attracting the rich local clients (Thomas, 2007, p. 87). The success in these markets motivated further expansions to new locales such as Beverly Hills and Las Vegas. Today the major luxury fashion brands (Figure 3) have boutiques in all the major luxury galleries in the world.

### **The luxury brands addicted Japanese**

The Japanese addiction to Western luxury fashion brands arose in the 1960s and 1970s with the extraordinary economic growth of the country, and the resulting rapid expansion of the new middle class that wanted to show off their success. Because in the densely populated island nation the Western way to enjoy as well as to exhibit one's riches - with grand homes and large properties in plush neighborhoods - was near impossible, the Japanese chose to show their wealth by dressing richly. Additionally, the dense traffic and tight parking discouraged luxury cars, giving further impetus to the trend of wearing Western luxury fashion brands to show off their success and new social status. For the post Second World War generation of Japanese, the more expensive the luxury articles worn the higher the status of the person wearing them. The ultimate status symbols in Japan are luxury fashion goods such as couture clothes, leather purses, shoes and accessories, silk scarves, watches, furs, and jewels (Thomas, 2007, p. 75; and Chadha & Husband, 2006, p. 84-85).

In Japan and across much of Asia making money is only part of an individual's success. To gain social stature they have to let the world know that they have it. This is the 'conspicuous consumption' described by Veblen (1994). For this reason luxury fashion brands became modern symbols used to redefine individual's identity and social position. The paradox in Japanese society however, is that the Japanese are aggressive conspicuous consumers but they never show off. This is because conformity is imprinted

into them from childhood. The guiding principle behind conformity is the creation of harmony. The natural corollary to conformity is that they stop thinking for themselves and adopt neatly packaged concepts.

With individual thinking discouraged, the average Japanese relies on 'higher authority' to provide guidance. Leading luxury fashion magazines have a certain influence in building fashion trends in the world. In Japan these magazines enjoy a different level of power: they dictate fashion. The Japanese did not question what luxury fashion editors recommended, they just followed these recommendations as if they were law. The Japanese consumers are such diligent followers of luxury fashion magazines and the lifestyle they present that they form tribes that are nicknamed after the magazines. For this reason the Japanese consumers of luxury brands never show off. They simply conform with their social group by wearing the right luxury fashion, or they wear the luxury fashion of the social group they aspire to belong to. Japan is a very egalitarian society, so nobody wants to stand out (Chadha & Husband, 2006, p. 83). If a particular social group carries Luis Vuitton bags, an individual that aspires to belong to that group also has to wear one, and she will make all the necessary personal and financial sacrifices to acquire it.

The only way to shine in Japan's very egalitarian society is by demonstrating a superior 'savoir faire'. For this reason Japanese consumers are amazingly diligent readers and followers of luxury fashion magazines. Showing off is done in a very subtle way, through the sophisticated use of up to date fashion knowledge. The point is not to buy the most expensive thing: it is to buy the latest trend in luxury fashion. The Japanese consumers don't want to show only that they have money, they also want to let their social group know that they have a sophisticated knowledge of luxury fashion.

An additional factor is that Japanese women have an extremely low status in what is essentially a male-dominated society. Chadha and Husband (2006, p. 95-96) explain that women are discriminated against at work with only a small chance of rising above clerical level. At home they have to serve their husbands, at work their bosses. As a result women's self esteem is extremely low. For them buying luxury fashion goods becomes an

affirmation of their existence, and of momentary power. The luxury stores in Japan with their outstanding levels of service are the only places they are pampered and respected. Women in Japan go shopping just to experience the pleasure of being served.

To be able to afford luxury a whole generation of young working women, in their mid 20s to early 30s, have postponed marriage to continue living in the comfort of their parental homes (Nishi & Kan, 2006, March 22).. These women are the Japanese phenomena that Masahito Yamada, professor at the Tokyo Gakaguei University called 'parasite singles' in his 1999 bestselling book *The Age of Parasite Singles* (Roberts, 2002, p. 60). They generally work in low status jobs in large corporations and have little chance of getting the managerial jobs that are mostly reserved for men. Tolbert (2000) wrote a vivid description of one of these women in the *Washington Post*:

*Miki Takasu is 26 years old, beautiful, drives a BMW and carries a 2,800 USD Chanel handbag--when she isn't using her Gucci, Prada or Vuitton purses. She vacations in Switzerland, Thailand, Los Angeles, New York and Hawaii. Happily unmarried, living with her parents while working as a bank teller, she is what people here call a "parasite single"...*  
*...They shop. Rings and watches by Cartier, Bulgari, and Hermes costing 2,000 to 3,000 USD are particularly popular among working women, who buy themselves presents for special occasions--a Cartier ring to celebrate her 10th anniversary on the job, or a gift to herself on turning 30.*  
*They travel. Miki, who earns about 28,000 USD a year, frequently makes quick shopping trips to Korea, has been to Hawaii three times and to Malaysia and Egypt as well--all with girlfriends.*

Another colorful but very insightful description of the 'parasite singles' and their impact on Japanese society was given by Orestein (2001) in The New York Times:

*More than half of Japanese women are still single by 30 -- compared with about 37 percent of American women -- and nearly all of them live at home with mom and dad. Labeled 'parasite singles' (after 'Parasite Eve,' a Japanese horror flick in which extraterrestrial hatchlings feed off unsuspecting human hosts before bursting, 'Alien'-style, through their bellies), they pay no rent, do no housework and come and go freely. Although they earn, on average, just 27,000 USD a year, they are Japan's leading consumers, since their entire income is disposable. Despite Japan's continuing recession, they have created a boom in haute couture accessories by Louis Vuitton,*



*Bulgari, Fendi and Prada, as well as in cell phones, mini-cars and other luxury goods. They travel more widely than their higher-earning male peers, dress more fashionably and are more sophisticated about food and culture.*

*While their spending sprees keep the Japanese economy afloat, their skittishness about traditional roles may soon threaten to capsize it. Japan's population is aging more rapidly than any on the planet -- by 2015 one in four Japanese will be elderly. The birthrate has sunk to 1.34 per woman, well below replacement levels. (The birthrate in the United States, by contrast, is 2.08.) Last year, Japan dropped from the eighth-largest nation in the world to the ninth. The smallest class in recorded history just entered elementary school. Demographers predict that within two decades the shrinking labor force will make pension taxes and health care costs untenable, not to mention that there will not be enough workers to provide basic services for the elderly. There are whispers that to avoid ruin, Japan may have to do the unthinkable: encourage mass immigration, changing the very notion of what it means to be Japanese.*

*Politicians, economists and the media blame parasite women for the predicament. (Unmarried men can also be parasitic, but they have received far less scrutiny.) "They are like the ancient aristocrats of feudal times, but their parents play the role of servants," says Masahiro Yamada, a sociologist who coined the derogatory but instantly popular term "Parasite Single" (The clock on his 15 minutes of fame has been ticking ever since). "Their lives are spoiled. The only thing that's important to them is seeking pleasure."*

*He may be right: parasite women may indeed be a sign of decadence, a hangover from the intoxicating materialism of the Bubble years of the 80's. But that conclusion, the most common one in the Japanese press, misses something more substantive: an unconscious protest against the rigidity of both traditional family roles and Japan's punishing professional system. "Maybe they appear to be spoiled," says Yoko Kunihiro, a sociologist who studies dissatisfaction among women in their 30's, "but you could also perceive 'parasite singles' as the embodiment of a criticism against society. Seen from the perspective of conventional values, even feminist values, they seem like a very negative force, but I see something positive in them."*

*... Long before Makiko Tanaka (a Japanese politician, the daughter of former Prime Minister Kakuei Tanaka) there was Mariko Bando, one of Japan's best-known female politicians; she is currently director general of the Gender Equality Bureau Cabinet Office and a regular on the pundit circuit. Her bureau is charged with the amorphous task of "encouraging other ministries to look at gender issues" as well as strategizing on how to better support mothers in the workplace. So far, she has generated lots of paper with few results, which has been frustrating.*

*Rather than dismissing the parasites as merely spoiled children, overindulged by their parents, Bando says she believes there is also an economic explanation for the phenomenon. "We understand why Japanese women don't want to have children," she says. "Once*

*they're married, they have to do all the housework. Japanese husbands may help some, but they won't share the burden. Also, if women work as hard as men they can be promoted -- not always, but it's possible -- but if they have children and stop working, it's virtually impossible to re-enter the work force. Many well-educated women quit and become housewives whether they want to or not. So instead, women are postponing marriage and/or childbirth."*

*The typical employment pattern for women in Japan is age-related, following an M curve: it peaks by 24, drops sharply, then spikes again in the early 50's (when former housewives take low-level part-time jobs) before falling off for good at 55. By comparison, American women's employment stays steady from their 20's until around 60. Some Japanese economists believe that boosting women's labor-force participation rate to U.S. levels during their 30's, 40's and 50's would lower inflation and raise the G.D.P. It would offset the labor shortage caused by the declining birthrate and revitalize Japan's economy. But that doesn't appear to be an argument either government or business is heeding; according to the Economic Planning Agency, working conditions for women have actually worsened in Japan since the 1980's. "They agree in principle," Bando says, "but a lot of men in the government are themselves uncomfortable with working mothers as colleagues."*

*.... One spring afternoon, I visited Mitsuko Shimomura, a pioneering female journalist who, in her 60's, has taken over for her 90-year-old mother as administrator of her family's health clinic in Tokyo. She is also director of the Gender Equity Center in Fukushima prefecture, about an hour and a half outside Tokyo. "I don't regret the decline in the birthrate," Shimomura told me. "I think it's a good thing. The parasites have unintentionally created an interesting movement. Politicians now have to beg women to have babies. Unless they create a society where women feel comfortable having children and working, Japan will be destroyed in a matter of 50 or 100 years. And child subsidies aren't going to do it. Only equality is."*

In 2009, almost half of Japan's single population between the age of 20 and 30 (an estimated 11 million women but also including men in 2008) are 'parasite singles' (Simms, 2009, November 26). They are blamed for the steady decline in sales of durable household goods (refrigerators, furniture, washing machines) in Japan, and credited with the booming sales of luxury goods, especially of luxury fashion brands like Gucci, Prada, Hermès, Dior, Givenchy and especially Louis Vuitton (Chadha & Husband, 2006, p. 85-87).



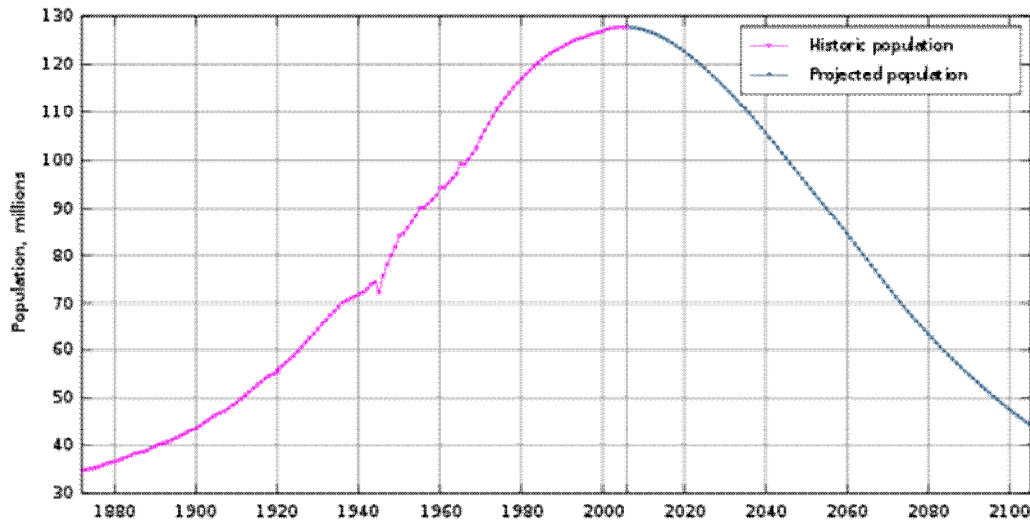
### **The uncertain future of The luxury brands industry in Japan**

According to a McKinsey Asia study (Atsmon et al., 2009) Japan showed a significant 7 percent decline in the luxury market from 2007 to 2008. This is surprising because the world as a whole had a healthy 5 percent growth in the same period despite the global financial crisis. The rest of Asia, led by China, had an extraordinary 17 percent growth while Europe had 7 percent growth and the rest of the world had a strong 9 percent growth. Even the US, where Wall Street was in the center of the financial crisis, managed to grow 1 percent.

The explanation for the significant and exceptional decline in the Japanese luxury market lies beyond the financial crisis of 2007-8 that affected the entire world, or even the bursting of the luxury brand bubble that started in the early 2000s when newly rich bankers, traders, real-estate agents, and entrepreneurs started spending money on luxury goods. The financial crisis may have been responsible for the initial triggering of the luxury brand bubble that was fueling the growth of the luxury market, and for some part of the recent fall in sales, but certainly cannot account for such a significant decline. The explanation for the extraordinary decline of 7 percent from 2007 to 2008 (Atsmon et al., 2009) probably lies in the rapid aging of the Japanese population, and (in a more significant and worrisome trend for the luxury industry) in the long term shift in Japanese behavior toward luxury brands.

Japan had a population of 127 million in March 2009, making it the tenth most populous country in the world. Although the country saw a rapid growth in population during the 19th and early 20th centuries (Figure 5), this growth came to a standstill from 2000 onward when Japan was ranked the 9th most populous country in the world with the same 127 million population as in 2009. The population ranking of Japan had dropped from 7th to 8th in 1990 and from 8th to 9th in 1998.

**Figure 5.** Japan's population growth and projected decline

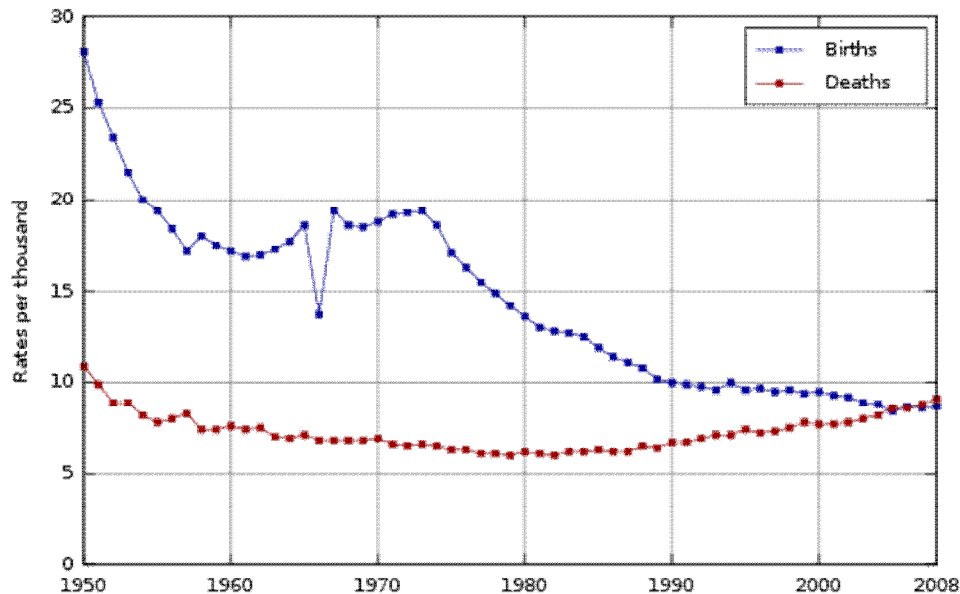


Source: Aging of Japan, Wikipedia

After the 1970s Japan's population growth rate slowed due to the steady decline in the birth rate (Figure 6) that was compensated by for the rising life expectancy of the population. Today Japan has one of the highest life expectancies in the world at 81 years, and also the highest proportion of elderly citizens: 22 percent over the age of 65. This demographic group is expected to increase to 40 percent by 2055 (Aging of Japan, Wikipedia).

The rapid graying of Japan can also be seen by the fall in the youngest proportion of the population, where those aged up to 14 years represent only 13.5 percent of the total population. The consequence is that the productive population, or those aged 15 to 64, is expected to decline from 81.64 million in 2009 to 45.95 million in 2055.

**Figure 6.** Japan's birth and death rate from 1950 to 2008 (The 1966 drop in birth rates was due to Chinese zodiac year of the 'Fire Horse')



Source: Demographics of Japan, Wikipedia

The most significant demographic impact of the graying of Japan upon the luxury market is the decline in the number of the 'parasite singles' who represent about half of the women and men in their age bracket and spend furiously on luxury fashion branded goods. As a consequence of the aging of the Japanese population their absolute number (but not the percentage in their age bracket) decreased 5 percent to 11 million in the last year (Simms, 2009, November 26).

This 5 percent decrease in the number of the 'parasite singles' (the greatest consumers of luxury goods) is probably the largest single factor responsible for the decline of the Japanese luxury market from 2007 to 2008. The bad news for the luxury industry is that a decrease in the absolute number of 'parasite singles' in Japan will continue in the future with the aging of the Japanese population, and with them the consumption of luxury fashion goods will also decline.

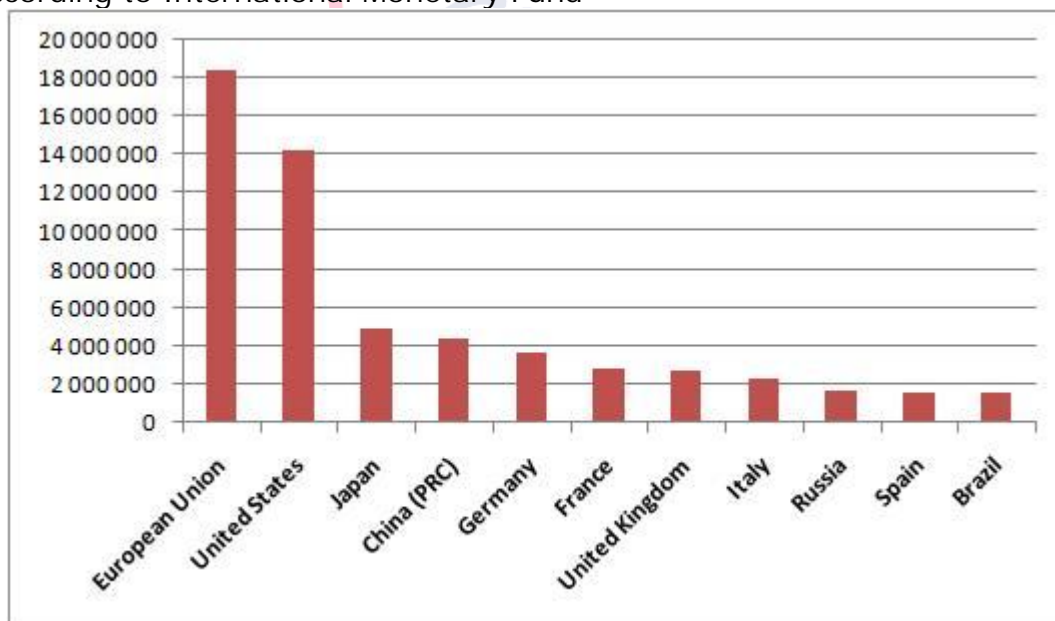
Japan is a mature wealthy nation and society. The country moved from total defeat and utter poverty after the Second World War to become the third largest economy in the world behind the European Union and the US (Figure 7). The Japanese companies made this historic feat possible by

copying and adapting Western technology within organizations entirely based on Japanese cultural values. Abegglen (2006, p. 7) writes:

*Japanese companies are not simple economic machines with the purpose of rewarding shareholders and executives. The curious Anglo-American notion that all is owned to the shareholders has no currency in Japan. The primary stakeholders in the kaisha (Japanese corporation) are its members, the employees.*

These values have made Japan the most equalitarian society in the world. The income of the richest 10 percent of the population in Japan is only 4.5 times higher than the income of the lowest 10 percent. This contrasts with an income inequality in the US of 15.9 times, in Germany of 6.9 times, in France 9.1 times, and in Italy 11.6 times (Human Development Report 2007/2008, 2007, p. 281).

**Figure 7.** The ten largest national economies in the World (and the European Union) in 2008, measured in nominal GDP (millions of USD), according to International Monetary Fund



Source: List of countries by GDP (nominal). Wikipedia

Japan's equalitarian society is a possible explanation of why the Japanese are so addicted to luxury brands as this consumption allows them to recreate some degree of social stratification. Because of their relatively good financial means they are able to use luxury fashion goods to define

themselves socially as they wish. Thus they use luxury as badges for their social aspirations, which is why they have such a need to show the brands.

Japan's current industrial and demographic structure means that the high economic growth of the 1960s and 1970s will not return. After extraordinary economic success the environment for Japanese companies changed in the early 1990s. Between 1992 and 1993, land and share price values collapsed in Japan. The usual government remedies to resuscitate the economy did not work, and in 1995 Japanese companies, realizing that the growth period was over, started reorganizing vigorously and effectively (Abegglen, 2006, p. 8-9). They changed their focus from gaining market share to cash flow to pay off their debts and begun to prepare for the anticipated 'labor shortage' by investing heavily in automation and robotics.

Because of the future 'labor shortage' there are plans in Japan to extend the current retirement age of 60 years as it now does not make sense in a country with the longest life expectancy in the world (Abegglen, 2006, p. 22). Another positive aspect of the 'labor shortage' is the need to bring more women into the workforce. In the US the need to bring women into the workforce during the Second World War was one of the key factors that helped American women to obtain equal rights with men in the labor market. This could also happen in Japan with similar effects upon the fashion and luxury markets.

Long before the financial crisis of 2007-8, fundamental shifts in the attitude and behavior of luxury consumers were underway in Japan and the rest of the world. The crisis has brought these shifts to the fore, suggesting that they are not temporary. One of the most important trends is that luxury consumers and even designers are becoming disillusioned with the vulgarization of luxury brands. Thomas (2007, p. 325-326), explaining this delusion of 'democratized luxury', reproduces an interview she conducted with the famous designer luxury fashion Tom Ford. During the interview Ford said:

*Luxury fashion brands today are too available, everything is too uniform, and customer business too pedestrian. It is like McDonald's, the merchandise and philosophy behind it is very similar. You get the same hamburger and the same experience in every McDonald's. Same with Vuitton. We helped create that at Gucci. It was in the air and needed to be addressed, and I'm proud of what we*

*accomplished. But it's not what I'm interested in now. I'm in a backlash. All these handbag ads make me sick. It's so formulaic. And it's foolish to think that customers are not going to tune out, that they aren't as bored with it as we are. I believe that the little companies are the big ones. There are lessons we can learn from small, old-fashioned luxury.*

The 'democratization of luxury' promoted by the large luxury brand conglomerates is without doubt the main force behind the vulgarization of most traditional luxury fashion brands. Their expansion into the mass market gave rise to an ever growing counterfeit industry, and the need for luxury outlets. Many consumers today are satisfying their craving for luxury brands by buying cheap fake versions that they can pass off as real. Another cheap source for consumers to satisfy their need for luxury brands are the luxury outlets. These outlets are the consequence of the push by the luxury industry to increase sales by bringing out increasingly trendy collections of clothes, handbags and shoes each season. These products have a short fashion life span before they are displaced by the next collection. To sell the remaindered stock from past collections the luxury conglomerates have created luxury outlets where they are sold at heavy discounted prices. Both the cheap fakes and the cheap remainders are definitively contributing to the vulgarization of luxury fashion brands.

Besides the vulgarization trend that is certainly affecting Japanese luxury consumers, the McKinsey Asia study (Atsmon et al., 2009) has detected that the 'luxury brands as badges' mentality used to define social stratification and that transformed the Japanese into luxury brand addicts is losing ground to different and more personal symbols. It is almost inevitable that Japanese consumers will become more confident (like the Americans and Europeans) and express their aspirations without relying on 'luxury brands as badges'. Some middle-market fashion brands such as Zara, Gap, H&M, and Banana Republic have taken advantage of this increased confidence and have moved into the Japanese market. As a consequence traditional luxury fashion brands have new competitors for their share of the Japanese luxury consumer's wallet.

The McKinsey Asia study (Atsmon et al., 2009) study detected four important shifts in consumer attitudes and channel trends that are

contributing to the Japanese luxury market downturn. These shifts are: the decline of conformity and the rise of individuality; an increasing preference for luxury experience rather than luxury goods; the proliferation of choices and the resulting fragmentation of the 'luxury wallet'; and the diminishing importance of the department store. It should be noted that their last finding about the diminishing importance of department stores is vigorously contested by Fluch (2009, September 18), who points out that not all department stores are as alike as the McKinsey Asia study implies, and that some, like the Isetan department stores, that are not mentioned in the study are in fact tremendously successful.

McInnes (2009, April 12) reporting on the 2009 Japan Fashion Week writes:

*The luxury market is taking a beating; world-famous German minimalist fashion designer Jil Sander is working with Uniqlo, H&M are taking over Tokyo high streets and Number (N)ine, a top Japanese menswear label, has gone out of business. It would be fair to say that the fashion industry is in a state of flux.*

**Figure 8.** Picture taken during the 2009 Japan Fashion Week that remembers the 'mod' fashion revolution of the 1960s that made traditional luxury haute couture old-fashioned



Source: McInnes, 2009, April 12



The picture above (Figure 8) taken during the 2009 Japan Fashion week and which illustrates McInnes article, strongly resembles the 'mod and hippy fashion revolution' of the 1960s. This fashion revolution started on London's Carnaby Street and overran the world (Carnaby Street, Wikipedia) and made traditional luxury haute couture old-fashioned (Thomas, 2007, p. 33). The crucial questions are: Will Japan in the near future undergo a similar fashion revolution? Will the young Japanese consumers, like Westerners did in the 1960s, express their individuality by abandoning the conformity of the 'luxury brand badges' in defining social status?

## Conclusion

Japanese luxury consumers were the driving force behind the globalization of luxury fashion retail. They are the world's biggest spenders on luxury goods (Figure 2), with a per capita spending of 156 USD. This is almost double the 85 USD spent by the Americans, and more than the double the 71 USD dollars spent by Europeans. In 2008 the approximately 20 billion USD Japanese luxury market was the third largest in the world behind Europe and the US (Figure 1). The Japanese luxury market is also the world's only 'luxury mass market'. For all these reasons the large sudden and unparalleled 7% decline in the Japanese luxury market in 2008 is a strong indicator that the heyday is over for the large luxury brand conglomerates such as Bernard Arnault's LVMH or François Pinault's PPP.

The principal factors contributing to the decline of the luxury market in Japan were the 5 percent decrease in 'parasite singles' (the avid consumers of luxury brands) due to the rapid aging of the Japanese population, and the rising confidence of Japanese consumers that they don't need 'luxury brands as badges' to show their success. Additionally, the Japanese consumer is being negatively influenced by the rapid worldwide vulgarization of the traditional luxury brands and the appearance of new middle market brands such as Zara, Gap, H&M, and Banana Republic that have taken advantage of this vulgarization and are now competing for their share of the luxury wallet.



Because the factors contributing to the decline of the luxury market in Japan reflect permanent changes in Japanese demographics and consumer attitudes and behavior, for the luxury industry to continue to be successful in Japan and probably in the world it must find ways to learn and adapt its marketing strategy to the new reality. Eventually the large luxury conglomerates have to return to the origin of their luxury brands and make fine high quality and exclusive luxury goods for selected few consumers that can afford them, or otherwise accept that the popularization (or vulgarization) of their traditional luxury brands means that they have become mere premium brands that will compete with other premium brands in the middle market.

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